

Senate File 470 - Introduced

SENATE FILE 470

BY CHELGREN

A BILL FOR

1 An Act modifying the tax brackets and tax rates imposed under
2 the individual income tax and corporate income tax and
3 including retroactive applicability provisions.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 422.5, subsection 1, Code 2015, is
2 amended to read as follows:

3 1. A tax is imposed upon every resident and nonresident
4 of the state which tax shall be levied, collected, and paid
5 annually upon and with respect to the entire taxable income as
6 defined in this division at rates as follows:

7 *a.* On all taxable income from zero through one thousand
8 dollars, thirty-six hundredths of one percent.

9 *b.* On all taxable income exceeding one thousand dollars but
10 not exceeding two thousand dollars, seventy-two hundredths of
11 one percent.

12 *c.* On all taxable income exceeding two thousand dollars
13 but not exceeding four thousand dollars, two and forty-three
14 hundredths percent.

15 *d.* On all taxable income exceeding four thousand dollars but
16 not exceeding nine thousand dollars, four and one-half percent.

17 *e.* On all taxable income exceeding nine thousand dollars
18 ~~but not exceeding fifteen thousand dollars, six and twelve~~
19 ~~hundredths~~ five percent.

20 ~~*f.* On all taxable income exceeding fifteen thousand dollars~~
21 ~~but not exceeding twenty thousand dollars, six and forty-eight~~
22 ~~hundredths percent.~~

23 ~~*g.* On all taxable income exceeding twenty thousand dollars~~
24 ~~but not exceeding thirty thousand dollars, six and eight-tenths~~
25 ~~percent.~~

26 ~~*h.* On all taxable income exceeding thirty thousand dollars~~
27 ~~but not exceeding forty-five thousand dollars, seven and~~
28 ~~ninety-two hundredths percent.~~

29 ~~*i.* On all taxable income exceeding forty-five thousand~~
30 ~~dollars, eight and ninety-eight hundredths percent.~~

31 *j. f.* (1) The tax imposed upon the taxable income of a
32 nonresident shall be computed by reducing the amount determined
33 pursuant to paragraphs "a" through "~~i~~" "e" by the amounts of
34 nonrefundable credits under this division and by multiplying
35 this resulting amount by a fraction of which the nonresident's

1 net income allocated to Iowa, as determined in section
 2 422.8, subsection 2, paragraph "a", is the numerator and the
 3 nonresident's total net income computed under section 422.7 is
 4 the denominator. This provision also applies to individuals
 5 who are residents of Iowa for less than the entire tax year.

6 (2) (a) The tax imposed upon the taxable income of a
 7 resident shareholder in an S corporation or of an estate
 8 or trust with a situs in Iowa that is a shareholder in an S
 9 corporation, which S corporation has in effect for the tax
 10 year an election under subchapter S of the Internal Revenue
 11 Code and carries on business within and without the state,
 12 may be computed by reducing the amount determined pursuant to
 13 paragraphs "a" through "i" "e" by the amounts of nonrefundable
 14 credits under this division and by multiplying this resulting
 15 amount by a fraction of which the resident's or estate's
 16 or trust's net income allocated to Iowa, as determined in
 17 section 422.8, subsection 2, paragraph "b", is the numerator
 18 and the resident's or estate's or trust's total net income
 19 computed under section 422.7 is the denominator. If a resident
 20 shareholder, or an estate or trust with a situs in Iowa
 21 that is a shareholder, has elected to take advantage of this
 22 subparagraph (2), and for the next tax year elects not to take
 23 advantage of this subparagraph, the resident or estate or
 24 trust shareholder shall not reelect to take advantage of this
 25 subparagraph for the three tax years immediately following the
 26 first tax year for which the shareholder elected not to take
 27 advantage of this subparagraph, unless the director consents to
 28 the reelection. This subparagraph also applies to individuals
 29 who are residents of Iowa for less than the entire tax year.

30 (b) This subparagraph (2) shall not affect the amount of
 31 the taxpayer's checkoffs under this division, the credits from
 32 tax provided under this division, and the allocation of these
 33 credits between spouses if the taxpayers filed separate returns
 34 or separately on combined returns.

35 Sec. 2. Section 422.5, subsection 2, paragraph a, Code 2015,

1 is amended to read as follows:

2 a. There is imposed upon every resident and nonresident
3 of this state, including estates and trusts, the greater of
4 the tax determined in subsection 1, paragraphs "a" through "~~j~~"
5 "~~f~~", or the state alternative minimum tax equal to seventy-five
6 percent of the maximum state individual income tax rate for the
7 tax year, rounded to the nearest one-tenth of one percent, of
8 the state alternative minimum taxable income of the taxpayer as
9 computed under this subsection.

10 Sec. 3. Section 422.5, subsection 6, Code 2015, is amended
11 to read as follows:

12 6. Upon determination of the latest cumulative inflation
13 factor, the director shall multiply each dollar amount set
14 forth in subsection 1, paragraphs "a" through "~~i~~" "e" by this
15 cumulative inflation factor, shall round off the resulting
16 product to the nearest one dollar, and shall incorporate the
17 result into the income tax forms and instructions for each tax
18 year.

19 Sec. 4. Section 422.8, subsection 2, paragraph a, Code 2015,
20 is amended to read as follows:

21 a. Nonresident's net income allocated to Iowa is the net
22 income, or portion of net income, which is derived from a
23 business, trade, profession, or occupation carried on within
24 this state or income from any property, trust, estate, or
25 other source within Iowa. However, income derived from a
26 business, trade, profession, or occupation carried on within
27 this state and income from any property, trust, estate, or
28 other source within Iowa shall not include distributions from
29 pensions, including defined benefit or defined contribution
30 plans, annuities, individual retirement accounts, and deferred
31 compensation plans or any earnings attributable thereto so long
32 as the distribution is directly related to an individual's
33 documented retirement and received while the individual is a
34 nonresident of this state. If a business, trade, profession,
35 or occupation is carried on partly within and partly without

1 the state, only the portion of the net income which is fairly
 2 and equitably attributable to that part of the business,
 3 trade, profession, or occupation carried on within the state
 4 is allocated to Iowa for purposes of section 422.5, subsection
 5 1, paragraph ~~"j"~~ "f", and section 422.13 and income from any
 6 property, trust, estate, or other source partly within and
 7 partly without the state is allocated to Iowa in the same
 8 manner, except that annuities, interest on bank deposits and
 9 interest-bearing obligations, and dividends are allocated
 10 to Iowa only to the extent to which they are derived from a
 11 business, trade, profession, or occupation carried on within
 12 the state.

13 Sec. 5. Section 422.11B, Code 2015, is amended to read as
 14 follows:

15 **422.11B Minimum tax credit.**

16 1. a. There is allowed as a credit against the tax
 17 determined in section 422.5, subsection 1, paragraphs "a"
 18 through ~~"j"~~ "f" for a tax year an amount equal to the minimum
 19 tax credit for that tax year.

20 b. The minimum tax credit for a tax year is the excess,
 21 if any, of the net minimum tax imposed for all prior tax
 22 years beginning on or after January 1, 1987, over the amount
 23 allowable as a credit under this section for those prior tax
 24 years.

25 2. a. The allowable credit under subsection 1 for a tax
 26 year shall not exceed the excess, if any, of the tax determined
 27 in section 422.5, subsection 1, paragraphs "a" through ~~"j"~~ "f"
 28 over the state alternative minimum tax as determined in section
 29 422.5, subsection 2.

30 b. The net minimum tax for a tax year is the excess, if any,
 31 of the tax determined in section 422.5, subsection 2, for the
 32 tax year over the tax determined in section 422.5, subsection
 33 1, paragraphs "a" through ~~"j"~~ "f" for the tax year.

34 Sec. 6. Section 422.33, subsection 1, Code 2015, is amended
 35 by striking the subsection and inserting in lieu thereof the

1 following:

2 1. a. A tax is imposed annually upon each corporation doing
3 business in this state, or deriving income from sources within
4 this state, at the rate of five percent of the taxable income
5 received by the corporation during the income year.

6 b. For purposes of this section, "*taxable income*" means the
7 net income as calculated in section 422.35 and determined to
8 be reasonably attributable to Iowa pursuant to subsections 2
9 and 3.

10 Sec. 7. Section 422.33, subsection 1A, Code 2015, is amended
11 to read as follows:

12 1A. There is imposed upon each corporation exempt from
13 the general business tax on corporations by section 422.34,
14 subsection 2, a tax at the ~~rates~~ rate specified in subsection 1
15 upon the state's apportioned share computed in accordance with
16 subsections 2 and 3 of the unrelated business income computed
17 in accordance with the Internal Revenue Code and with the
18 adjustments set forth in section 422.35.

19 Sec. 8. Section 422.33, subsection 4, paragraph a, Code
20 2015, is amended to read as follows:

21 a. In addition to all taxes imposed under this division,
22 there is imposed upon each corporation doing business within
23 the state the greater of the tax determined in subsection 1,
24 ~~paragraphs "a" through "d"~~ or the state alternative minimum tax
25 equal to sixty percent of the maximum state corporate income
26 tax rate, rounded to the nearest one-tenth of one percent, of
27 the state alternative minimum taxable income of the taxpayer
28 computed under this subsection.

29 Sec. 9. RETROACTIVE APPLICABILITY. This Act applies
30 retroactively to January 1, 2015, for tax years beginning on
31 or after that date.

32 EXPLANATION

33 The inclusion of this explanation does not constitute agreement with
34 the explanation's substance by the members of the general assembly.

35 This bill relates to the tax brackets and tax rates imposed

1 on individuals and corporations under the individual and
2 corporate income taxes.

3 INDIVIDUAL INCOME TAX. Currently, the individual income tax
4 is imposed in a progressive manner using nine income brackets
5 with increasing rates ranging from a low of 0.36 percent on the
6 first \$1,539 of taxable income to a high of 8.98 percent on
7 all taxable income in excess of \$69,255. The taxable income
8 amounts in each bracket are indexed for inflation each year by
9 the department of revenue. The bill eliminates the top four
10 tax brackets and tax rates and lowers the rate in the fifth tax
11 bracket from 6.12 percent to 5 percent. As a result, the new
12 tax rates and tax brackets (2015 amounts) are as follows:

- 13 1. From \$0 to \$1,539, 0.36 percent.
- 14 2. From \$1,540 to \$3,078, 0.72 percent.
- 15 3. From \$3,079 to \$6,156, 2.43 percent.
- 16 4. From \$6,157 to \$13,851, 4.5 percent.
- 17 5. From \$13,852 and over, 5 percent.

18 CORPORATE INCOME TAX. Currently, the corporate income tax
19 is imposed in a progressive manner using four income brackets
20 with increasing rates ranging from a low of 6 percent on the
21 first \$25,000 of taxable income to a high of 12 percent on
22 taxable income of \$250,000 or more. The bill eliminates this
23 tiered bracket and rate structure and imposes the tax at a rate
24 of 5 percent on the corporation's taxable income.

25 The bill applies retroactively to tax years beginning on or
26 after January 1, 2015.